

HOUSE OF REPRESENTATIVES STAFF ANALYSIS

BILL #: HB 1649 w/CS Real Property Sales Disclosures
SPONSOR(S): Prieguez
TIED BILLS: **IDEN./SIM. BILLS:** SB 2018

REFERENCE	ACTION	ANALYST	STAFF DIRECTOR
1) Judiciary	13 Y, 3 N w/CS	Havlicak	Havlicak
2) Business Regulation	16 Y, 12 N w/CS	Livingston	Liepshutz
3)			
4)			
5)			

SUMMARY ANALYSIS

Current law requires certain disclosures in real property transactions. Real estate brokers and salespersons must, upon written request, disclose copies of termite and roof inspection reports that were conducted within the past year. Additionally, a seller of a home who knows of facts materially affecting the value of the property which are not readily observable and unknown to the buyer must disclose such information.

This bill expands Florida's residential real property disclosure laws and provides a Property Identification Disclosure Statement form to be used for such disclosures. The disclosures required under this bill include whether the property is located:

- within a special flood hazard area designated by the Federal Emergency Management Agency;
- on soil with very severe constraints for development as identified by the U.S. Department of Agriculture;
- in an area impacted by sinkhole activity;
- within ¼ of a mile of a wellhead protection area according to the Florida Department of Environmental Protection or a water management district;
- in a priority wetland zone designated by the Florida Fish and Wildlife Conservation Commission;
- in a strategic habitat conservation area identified by the Florida Fish and Wildlife Conservation Commission;
- within 2 statute miles of an airport;
- within ¼ of a mile of an environmental hazard site; or
- within a mapped radon gas potential zone.

This bill does not appear to have a fiscal impact on state or local governments.

This document does not reflect the intent or official position of the bill sponsor or House of Representatives.

STORAGE NAME: h1649c.br.doc
DATE: April 15, 2003

FULL ANALYSIS

I. SUBSTANTIVE ANALYSIS

A. DOES THE BILL:

- | | | | |
|--------------------------------------|---|--|---|
| 1. Reduce government? | Yes <input type="checkbox"/> | No <input checked="" type="checkbox"/> | N/A <input type="checkbox"/> |
| 2. Lower taxes? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 3. Expand individual freedom? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |
| 4. Increase personal responsibility? | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> | N/A <input type="checkbox"/> |
| 5. Empower families? | Yes <input type="checkbox"/> | No <input type="checkbox"/> | N/A <input checked="" type="checkbox"/> |

For any principle that received a “no” above, please explain:

Requiring disclosures on residential real property transactions does not support the principle of less government.

B. EFFECT OF PROPOSED CHANGES:

Caveat Emptor:

In real property transactions, the doctrine of *caveat emptor* or “buyer beware” stands for the rule that a buyer of real property assumes the risk of any defects in the property. The doctrine of *caveat emptor* originated in early Roman law, and England and the United States later embraced the rule.¹

Over the years, the concept of *caveat emptor* has eroded. Courts have developed implied warranties.² Many real property transactions now involve warranty deeds wherein the seller ensures that he or she has marketable title.³ Section 689.02, F.S., outlines the form for warranty deeds. *Caveat emptor* does not apply to claims that fall within the scope of warranty deeds or other covenants.

Current Disclosures Required Under Florida Law:

Sellers of real property are required to disclose known material facts affecting the value of their property. The Florida Supreme Court has held that, “where the seller of a home knows of facts materially affecting the value of the property which are not readily observable and are not known to the buyer, the seller is under a duty to disclose them to the buyer.”⁴ Florida courts have not extended this holding to apply to commercial real property transactions; thus the doctrine of *caveat emptor* still applies to commercial real property transactions.⁵

In addition to disclosing material facts affecting the property, Section 475.22, F.S., requires a licensed real estate broker or salesperson, upon written request from any party to the transaction, to furnish copies of termite and roof inspection reports that have been performed on the property within the preceding year. Section 689.25, F.S., relates to stigmatized or psychologically impacted property and

¹ See Craig W. Dallan, *Theories of Real Estate Broker Liability and the Effect of the “As Is” Clause*, 54 FLA. L. REV. 395, 400-01 (2002)

² “[I]n every valid contract for the sale of lands, whatever may be the language in which it is couched, there is an implied undertaking to convey a good title, unless such an obligation is expressly excluded by the terms of the agreement.” *Wheeler v. Sullivan*, 106 So. 876, 878 (Fla. 1925). See also *Taylor v. Day*, 136 So. 701 (Fla. 1931)

³ “The usual common law covenants included in a warranty deed in Florida are the covenants of seisin, good right to convey, quiet enjoyment against encumbrances and that the grantor will warrant and defend the title.” *B.W.B. Corp. v. Muscare*, 349 So.2d 183, 184 (Fla. 3d DCA 1977).

⁴ *Johnson v. Davis*, 480 So.2d 625, 629 (Fla. 1985)

⁵ See *RNK Family Limited Partnership v. Alexander-Mitchell Associates*, 788 So.2d 1035, 1036 (Fla. 2d DCA 2001) (“caveat emptor is the current law in this state when generally dealing with the sale of commercial property.”); *JNC Enterprises, LTD, v. ICP1, Inc.*, 777 So.2d 1182, 1185 (Fla. 5th DCA 2001) (“doctrine of caveat emptor still prevails in Florida with regard to sales of commercial property.”); *Wasser v. Sasoni*, 652 So.2d 411 (Fla. 3d DCA 1995).

provides for an exemption from disclosure for an occupant of real property who is or has been infected with HIV or AIDS.

Proposed Changes:

This bill requires the transferor (or his or her agent) to make certain disclosures in residential real property transactions. The required disclosures include whether the property is located:

- within a special flood hazard area designated by the Federal Emergency Management Agency;
- on soil with very severe constraints for development as identified by the U.S. Department of Agriculture;
- in an area impacted by sinkhole activity based on “readily available and officially adopted governmental maps and information”;
- within ¼ of a mile of a wellhead protection area according to the Florida Department of Environmental Protection or a water management district;
- in a priority wetland zone designated by the Florida Fish and Wildlife Conservation Commission;
- in a strategic habitat conservation area identified by the Florida Fish and Wildlife Conservation Commission;
- within 2 statute miles of an airport;
- within a ¼ of a mile of an environmental hazard site; or
- within a mapped radon gas potential zone identified by the United States Environmental Protection Agency.

The requirements set forth in the bill do not apply to the following real property transactions:

- transfers by court order, such as in probate court or through a foreclosure sale;
- transfers by a fiduciary in the course of administering a decedent’s estate, guardianship, conservatorship, or trust;
- transfers between co-owners;
- transfers to a spouse or a relative of one of the transferors;
- transfers between spouses due to a judgment of dissolution of marriage; or
- any transfers or exchanges involving a governmental entity.

The disclosures are required to be made on a “Property Identification Disclosure Statement,” the form of which is set forth in the bill. Any waiver of these disclosure requirements by the parties is void as against public policy.

The bill provides that if disclosures are made after the execution of an offer to purchase, then the purchaser has 3 days (if personal delivery) or 5 days (if mail delivery) to provide the seller written notice to terminate the offer to purchase. Additionally, the transferor (or agent) is not liable for erroneous, inaccurate or omitted information contained in their disclosure if those errors or omissions were caused by inaccurate or incomplete information provided by governmental entities and ordinary care was exercised in obtaining the information.

The bill allows third parties, including certain licensed professionals or persons with certain expertise, to prepare the disclosure documents on behalf of the seller. These third parties are required to maintain \$20 million in insurance as protections for errors or omissions.

Finally, the bill provides that real property transfers subject to these disclosures will not be invalidated solely due to the failure of providing the mandated disclosures. However, anyone who willfully or negligently violates these disclosing requirements shall be liable for the actual damages suffered by the buyer.

C. SECTION DIRECTORY:

Section 1: creates s. 475.423, F.S., relating to property identification disclosure statement.

Section 2: provides a July 1, 2003, effective date.

II. FISCAL ANALYSIS & ECONOMIC IMPACT STATEMENT

A. FISCAL IMPACT ON STATE GOVERNMENT:

1. Revenues:

None.

2. Expenditures:

None.

B. FISCAL IMPACT ON LOCAL GOVERNMENTS:

1. Revenues:

None.

2. Expenditures:

None.

C. DIRECT ECONOMIC IMPACT ON PRIVATE SECTOR:

Requiring sellers of residential real property to satisfy the disclosure requirements of this bill will impose additional costs on residential real estate transactions.⁶ Willful or negligent failure to provide such disclosures subjects a seller to pay actual damages incurred by the buyer.

D. FISCAL COMMENTS:

None.

III. COMMENTS

A. CONSTITUTIONAL ISSUES:

1. Applicability of Municipality/County Mandates Provision:

This bill does not require counties or municipalities to spend funds or to take an action requiring expenditure of funds.

2. Other:

None.

B. RULE-MAKING AUTHORITY:

None.

⁶ Property ID of Florida currently charges \$148.00 for a seller disclosure report similar to that which would be required under this bill. See http://www.propertyid.com/propertyid_index.html

C. DRAFTING ISSUES OR OTHER COMMENTS:

None.

IV. AMENDMENTS/COMMITTEE SUBSTITUTE CHANGES

On April 2, 2003, the House Judiciary Committee adopted a strike everything amendment to this bill. The amendment:

- Removed the sale of manufactured or mobile homes from being subject to the bill's disclosure requirements;
- Removed the sale of commercial real property from being subject to the bill's disclosure requirements; and
- Removed a provision which applied the disclosure requirements to pending offers to purchase. This addressed an impairment of contracts issue identified in the bill as originally filed.

On April 14, 2003, the Committee on Business Regulation adopted a strike everything amendment and passed the bill favorably with a committee substitute. The CS differs in the following areas.

- Preserves exemptions for transfers between family members and closely held property;
- Removes limitations on the use of the disclosures by entities such as insurance companies and lenders;
- Clarifies that the seller or agent is not responsible for updating disclosures after delivering them to potential buyers; and
- Corrects references to airport facilities.